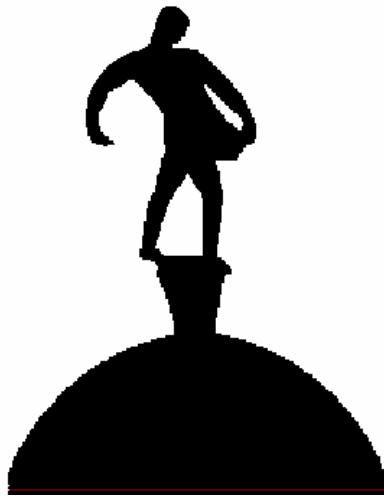


Tax Rate Review Committee



***Required November Meeting
Pursuant to Section 77-2715.01***

**Appropriations Committee Chair
Executive Board Chair
Speaker of the Legislature
Revenue Committee Chair
Tax Commissioner**

**Senator LaVon Heidemann
Senator John Wightman
Senator Mike Flood
Senator Abbie Cornett
Douglas Ewald**

**Prepared by the Legislative Fiscal Office
November 16, 2010**

Summary

This report includes a current projected General Fund Financial Status for the upcoming FY2011-12 and FY2012-13 Biennial Budget. This biennium had been shown as the "out years" in previous financial status. For planning purposes, this report also incorporates a new estimated financial status for the "out years" bringing in the FY2013-14 and FY2014-15 biennium. Assumptions for construction of the status for the upcoming biennium and estimates for the following biennium are discussed individually later in this report

PROJECTED SHORTFALL

The projected financial status shows an ending balance \$986 million **below** the minimum reserve for the upcoming FY11-12 / FY12-13 biennial budget. This projected "shortfall" continues to grow to \$1.9 billion in the following FY13-14 / FY14-15 biennium.

These estimates are based on (1) current law, (2) October Forecast Board projections for FY11, FY12 and FY13, (3) revenue projections for the following biennium using the "historical average" methodology, and (4) an initial pre-session assessment of General Fund appropriations under current law using both agency requests and historical trends.

The root of this large shortfall goes back to the negative revenue growth in FY08-09 (-4.4%) and FY09-10 (-4.8%). Cumulatively this was a negative 9.2% revenue "growth" compared to a positive 9.2% that would occur under average revenue growth. This 19% differential in revenue growth resulted in a structural imbalance of approximately \$660 million. Base budget cuts made in the 2009 regular session, 2009 special session, and 2010 regular session amounted to \$248 million on an on-going basis which only reduced the structural imbalance to \$412 million in FY10-11. This remaining structural imbalance was covered during the FY10/FY11 biennium by mostly one-time items, use of American Recovery and Reinvestment Act (ARRA) funds, Cash Reserve Fund transfers, extraordinary cash fund lapses, and draw down of the General Fund balance.

In the last two recession cycles, significant above average revenue growth in subsequent years reduced the structural imbalances and in fact created a surplus. In other times this high revenue growth might have been enough to replace the one-time items used and close the structural imbalance. It appears that in this instance this is not the case, at least for the foreseeable future, and that the closing of the structural imbalance will have to be accomplished by other means.

REVENUE GROWTH

Reflecting the recent economic news, revenue growth (adjusted for rate and base changes) is very low compared to the historical average. Revenue estimates for FY2010-11, FY2011-12, and FY2012-13 are the October 2010 forecasts from the Nebraska Economic Forecast Advisory Board (NEFAB). Revenue growth implied by these current forecasts is 5.8% in FY10-11, 2.6% in FY11-12 and 3.9% in FY12-13.

For the "following biennium", revenue growth is calculated at 6% per year using the historical average methodology. These calculated amounts are somewhat higher than preliminary, unofficial estimates prepared by the Nebraska Dept of Revenue (NDR) and Legislative Fiscal Office (LFO) using Global Insight forecasting information but not dramatically so.

SPENDING GROWTH

For purposes of this projected status, spending growth is not derived based on what results in a balanced budget but is the best estimate of the costs of maintaining existing programs and services reflecting existing statute and policies. This then provides a benchmark from which the policy makers can examine the changes to statute and policy choices that are then necessary to then actually balance the budget.

The key phrase is statute and policies. The projected budget replaces the use of ARRA funds as current state law for TEEOSA school aid, Medicaid, and Public Assistance sets the overall level of appropriation regardless of the funding source. The 5% cut in provider rates that the Dept of Health and Human Services included in their request was not incorporated into this projected status as that is a significant policy choice.

In developing the projected budget, in most cases the increases for the upcoming biennial budget (FY11-12 and FY12-13) reflect agency requests for the items shown. No new or expanded programs are included. *In many cases, rationales for the FY12 and FY13 requests are incomplete as these requests are currently under analysis.* Estimated increases for the following biennium (FY13-14 and FY14-15) are based on historical trends.

Overall the projected budget results in a budget growth of 9.5% in FY2011-12 and 5.6% in FY2012-13, a 7.6% two year average. Replacement of the ARRA funds is the single largest increase in the following biennium and accounts for 58% of the total increase in the budget. This includes \$140.3 million Education Stabilization funds (TEEOSA school aid), \$89.3 million of Medicaid federal matching rate (FMAP), and \$17 million of General Stabilization funds (used in Dept of Corrections).

Projected Increases to FY11 Base Year	FY2011-12	FY2012-13	2 Yr Total	% of Total
Replace ARRA related one-time funds	250,602,207	250,602,207	501,204,414	58.4%
TEEOSA School Aid (excluding ARRA impact)	32,880,110	126,518,978	159,399,088	18.6%
Retirement (Schools, Patrol, Judges)	26,184,355	57,996,426	84,180,781	9.8%
Salary and Health Insurance	13,881,641	50,249,896	64,131,537	7.5%
Medicaid (excluding ARRA impact)	18,079,180	42,672,539	60,751,719	7.1%
Homestead Exemption	11,314,000	21,510,000	32,824,000	3.8%
Depreciation assessments	6,050,668	6,888,438	12,939,106	1.5%
BSDC items (HHS)	(24,477,558)	(24,477,558)	(48,955,116)	-5.7%
Public Assistance (excluding ARRA impact)	(14,500,000)	(8,500,000)	(23,000,000)	-2.7%
All Other	4,068,161	10,394,450	14,462,611	1.7%
Total General Fund increase (biennial basis)	324,082,764	533,855,376	857,938,140	100.0%
Annual percent change	9.5%	5.6%	7.6%	
Annual percent change (without ARRA replacement)	2.2%	6.0%	4.1%	

CASH RESERVE FUND

One bright spot in the financial status is the fact that the unobligated ending balance in the Cash Reserve Fund is projected at \$321 million. The projected General Fund financial status and projected shortfall does not assume any of this unobligated amount as use of these monies requires statute change.

Projected General Fund Financial Status

	Current Year FY2010-11	Upcoming Biennium FY2011-12 FY2012-13		Following Biennium FY2013-14 FY2014-15	
1 BEGINNING BALANCE					
2 Beginning Cash Balance	296,986,417	106,305,887	(313,578,169)	(785,734,836)	(1,257,909,568)
3 Cash Reserve transfers-automatic	0	0	0	0	0
4 Carryover obligations from FY10 (net)	(207,874,769)	0	0	0	0
5 Lapse FY11 reappropriations	0	0	0	0	0
6 Allocation for potential deficits	0	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
7 Unobligated Beginning Balance	89,111,648	101,305,887	(318,578,169)	(790,734,836)	(1,262,909,568)
8 REVENUES					
9 Net Receipts (Oct 2010 NEFAB)	3,364,000,000	3,435,000,000	3,590,000,000	3,840,000,000	4,075,000,000
10 General Fund transfers-out (current law)	(120,725,000)	(120,700,000)	(118,200,000)	(118,200,000)	(118,200,000)
11 General Fund transfers-in (current law)	in forecast	0	0	0	0
12 Cash Reserve transfers (current law)	154,000,000	0	0	0	0
13 2011 General Fund transfers-out	0	0	0	0	0
14 2011 General Fund transfers-in	0	0	0	0	0
15 2011 Cash Reserve transfers	0	0	0	0	0
16 2011 Revenue Bills	0	0	0	0	0
17 General Fund Net Revenues	3,397,275,000	3,314,300,000	3,471,800,000	3,721,800,000	3,956,800,000
18 APPROPRIATIONS					
19 Appropriations Per 2010 Session	3,405,101,292	3,405,101,292	3,405,101,292	3,938,956,668	3,938,956,668
20 2011 Mainline Budget Adjustments - Projected	(25,020,531)	324,082,764	533,855,376	250,018,064	484,107,912
21 2011 State Claims	0	0	0	0	0
22 2011 Session "A" Bills	0	0	0	0	0
23 General Fund Appropriations	3,380,080,761	3,729,184,056	3,938,956,668	4,188,974,732	4,423,064,580
24 ENDING BALANCE					
25 Dollar ending balance (Financial Status as shown)	106,305,887	(313,578,169)	(785,734,836)	(1,257,909,568)	(1,729,174,148)
26 Dollar ending balance (at Minimum Reserve)			200,749,686		200,763,063
27 Excess (shortfall) from Minimum Reserve			(986,484,522)		(1,929,937,211)
28 Biennial Reserve (%)			-10.2%		-20.1%
General Fund Appropriations					
29 Annual % Change - Appropriations (w/o deficits)	2.4%	9.5%	5.6%	6.3%	5.6%
30 Two Year Average	-1.1%	--	7.6%	--	6.0%
31 Four Year Average	--	--	3.1%	--	6.8%
General Fund Revenues					
32 Est. Revenue Growth (rate/base adjusted)	5.8%	2.6%	3.9%	6.1%	6.0%
33 Two Year Average	0.5%	--	3.2%	--	6.1%
34 Five Year Average	2.0%	--	0.5%	--	4.9%
35 <u>Structural Revenues vs Appropriations</u>	(161,826,292)	(414,884,056)	(467,156,668)	(467,174,732)	(466,264,580)
36 <u>Structural Revenues vs Approp. (w/o ARRA)</u>	(412,428,499)	(414,884,056)	(467,156,668)	(467,174,732)	(466,264,580)

	FY2010-11	FY2011-12	FY2012-13	FY2013-14	FY2014-15
Beginning Balance	467,201,626	321,752,626	321,752,626	321,752,626	321,752,626
Excess of certified forecasts (line 3 in Status)	0	0	0	0	0
To/from Gen Fund per current law	(154,000,000)	0	0	0	0
To/From Water Contingency Cash Fund	8,551,000	0	0	0	0
Projected Unobligated Ending Balance	321,752,626	321,752,626	321,752,626	321,752,626	321,752,626

Chronology of Projected Financial Status

(millions of dollars)	FY10 / FY11 Biennium	FY12/FY13 Biennium	FY14/FY15 Biennium
Variance from Minimum Reserve: Sine Die 2010 Session	(.4)	(679.4)	NA
1. General Fund Net Receipts (Actual vs Est FY10)	(76.7)	(76.7)	--
2. Accounting adjustment	2.8	2.8	--
3. Recalculate minimum reserve and accounting adjustment	2.2	2.2	--
Variance from Minimum Reserve: TRR July 2010	(71.3)	(751.1)	NA
4. Revised/initial revenue forecasts FY11, FY12 and FY13	0	(663.4)	--
5. Recalculate minimum 3% reserve	0	19.3	--
Variance from Minimum Reserve: NEFAB Oct 2010	(129.5)	(1,395.2)	NA
6. Revised estimate of FY12/FY13 projected budget (2 yr total)	0	408.7	--
7. Recalculate minimum 3% reserve	0	0.0	--
Variance from Minimum Reserve: TRR Nov 2010	(129.5)	(986.5)	(1,929.9)

NOTES:

Item 4 Revised Revenue Forecasts:

Revised NEFAB forecast for FY10-11	-\$58.2 million
Original NEFAB forecasts vs LFO Prelim for FY11-12	-\$233.2 million
Original NEFAB forecasts vs LFO Prelim for Y13-14	-\$372.0 million
Three Year Total	-663.4 million

Item 6 Revised Estimated Spending versus Planning Numbers (millions of dollars)

<u>Item</u>	<u>FY11-12</u>	<u>FY12-13</u>	<u>Total</u>
Deficit requests excluding drug rebate issue vs \$5M	30.0	0.0	30.0
TEEOSA Aid (to Oct 2010 joint meeting)	39.1	55.4	94.5
Medicaid (7.5% to adjusted request)	26.4	50.4	76.8
Public Assistance (8.5% to adjusted request)	36.8	54.1	90.9
Special Ed (5% to 0% request)	9.2	19.0	28.2
Behavioral health (3% to 0% request)	2.3	4.6	6.9
Developmental Disability aid (3% to transition only)	1.6	2.6	4.1
Salary increase (2.5% each yr to 2% FY12)	24.7	28.9	53.7
Health Insurance increase (10% to 10%)	1.2	2.5	3.7
Retirement contributions (est to request)	30.0	(1.4)	28.6
Operations cost increases (est to 24/7 facility request)	5.3	10.7	16.0
Maximum cash, fund shifts (HHS)	5.4	5.4	10.8
Homestead exemption (3% to request)	(9.4)	(17.6)	(26.9)
Depreciation assessments	(6.1)	(6.9)	(12.9)
All Other	2.2	2.1	4.3
Total	198.9	209.8	408.7

Cash Reserve Fund

The Cash Reserve Fund (CRF) is not included as part of the "General Fund Reserve" (which is the ending General Fund balance for a biennium) and was created as a separate and distinct fund to cover cash flow needs within a month or several month period. The Cash Reserve Fund also serves as a "rainy day fund" in that revenues in excess of a "certified forecast" are transferred from the General Fund to Cash Reserve fund at the end of a fiscal year. As the certified forecast is basically the revenue estimate at Sine Die when the budget is finalized, these transfers sequester revenues in excess of that which is needed to balance the budget. The Cash Reserve Fund unobligated balance at the end of this biennium is projected at \$321.7 million. This is based on all existing statutory transfers and assumes repayment of \$8.5 million transferred to the Water Contingency Fund in FY2007-08.

Table 1 - Cash Reserve Fund Cash Flow

	Estimated FY2010-11	Estimated FY2011-12	Estimated FY2012-13	Estimated FY2013-14	Estimated FY2014-15
Beginning Balance	467,201,626	321,752,626	321,752,626	321,752,626	321,752,626
Excess of certified forecasts (line 3 in Status)	0	0	0	0	0
To Gen Fund per current law	(154,000,000)	0	0	0	0
Repayment of Water Contingency transfer	8,551,000	0	0	0	0
2011 Session Transfers	0	0	0	0	0
Ending Balance	321,752,626	321,752,626	321,752,626	321,752,626	321,752,626

EXCESS OF CERTIFIED FORECASTS

Shown on line 3 of the Financial Status, revenues in excess of "certified" forecasts are required by statute to be transferred from the General Fund to the Cash Reserve Fund. These would take place in July of the fiscal year following completion of that year. FY07-08 was the last year where revenues exceeded certified and resulted in a \$116.9 million transfer in FY08-09

TRANSFERS TO / FROM GENERAL FUND

Unlike the automatic transfers that occur after the close of the fiscal year and are statutorily required, other transfers can take place as specifically enacted by the Legislature.

<u>Transfers to/from the General Fund</u>	<u>FY2010-11</u>	<u>FY2011-12</u>	<u>FY2012-13</u>	<u>FY2013-14</u>	<u>FY2014-15</u>
To GF, LB 456-2009)	(151,000,000)	0	0	0	0
To GF, LB317-2010	(3,000,000)	0	0	0	0
Net Transfers to/From General Fund	(154,000,000)	0	0	0	0

TRANSFERS TO/FROM OTHER FUNDS

In the 2008 session, LB1094 provided for a \$9 million transfer to the Water Contingency Cash Fund for the purpose of paying water right holders who agreed to lease and forgo water use to assist in the management, protection and conservation of the water resources of river basins, but remain unpaid due to litigation. Repayment by the NRD receiving said funds is required once the litigation is resolved no later than FY2010-11.

General Fund Revenues

GENERAL FUND REVENUE FORECASTS

Revenue Forecasts - Current Biennium (FY11, FY12 and FY13)

Revenue estimates for FY2010-11, FY2011-12 and FY2012-13 are the October 2010 forecasts from the Nebraska Economic Forecast Advisory Board (NEFAB). Revenue growth implied by the forecasts for the FY12/FY13 biennium average 3.2% (2.6% in FY11-12 and 3.9% in FY12-13). When including the 5.8% growth in FY11-12 forecast, this provides an average growth of about 4% over the three years that affect the financial status for the upcoming biennium. This reflects modest growth but not significant growth coming on the heels of the -4.4% and -4.8% in FY08-09 and FY09-10.

Revenue Forecasts - Following Biennium (FY14 and FY15)

The NEFAB does not make official forecasts for the following biennium or what's commonly referred to as the "out years". Although different methodologies could be utilized, the revenue estimates used for the following biennium (FY13-14 and FY14-15) in the current financial status are derived using a "capped" historical average methodology. This "smoothing"

technique derives "out year" revenue estimates by calculating the level of revenues that would yield a five year average growth (FY10 to FY15) roughly equal to the 29 year historical average (4.9%). Inherent in this methodology is the concept that within any five-year period, below average revenue growth in some years will be offset by above average growth in others and is visually seen in the line graph of historical adjusted revenue growth.

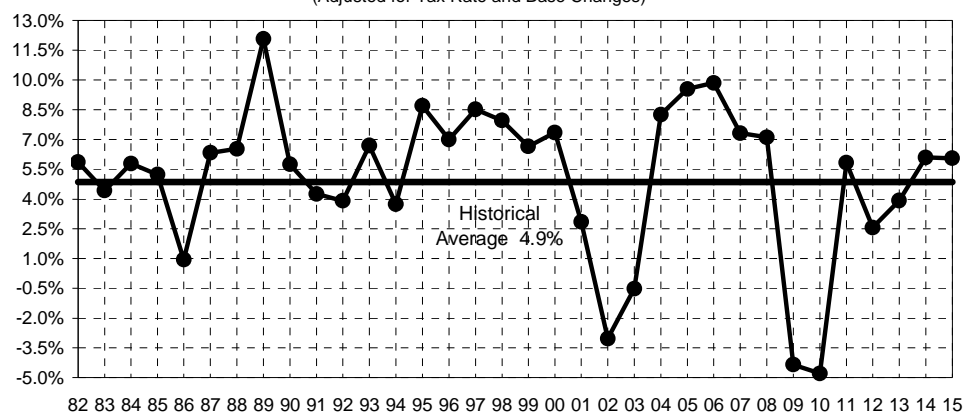
The "capped" provision of this methodology means that if the derived growth needed in the

Table 2 General Fund Revenue Forecasts

	NEFAB FY2010-11	NEFAB FY2011-12	NEFAB FY2012-13	LFO Prelim FY2013-14	LFO Prelim FY2014-15
Actual/Forecast					
Sales and Use Tax	1,350,000,000	1,400,000,000	1,460,000,000	1,540,000,000	1,620,000,000
Individual Income Tax	1,600,000,000	1,660,000,000	1,750,000,000	1,900,000,000	2,060,000,000
Corporate Income Tax	176,000,000	200,000,000	210,000,000	215,000,000	220,000,000
Miscellaneous receipts	238,000,000	175,000,000	170,000,000	185,000,000	175,000,000
Total s	3,364,000,000	3,435,000,000	3,590,000,000	3,840,000,000	4,075,000,000
Adjusted Growth					
Sales and Use Tax	4.9%	3.6%	4.0%	5.1%	4.9%
Individual Income Tax	5.7%	2.0%	4.7%	7.9%	7.8%
Corporate Income Tax	14.4%	3.7%	-2.9%	2.2%	2.1%
Miscellaneous receipts	4.7%	-2.0%	4.5%	1.2%	1.5%
Total	5.8%	2.6%	3.9%	6.1%	6.0%
Five Yr Average	2.0%	--	0.5%	--	4.9%

General Fund Revenue Growth

(Adjusted for Tax Rate and Base Changes)



out-years to achieve the historical average is above the "above average" years, growth is then capped at the average of the "above average years". Likewise if the historical average method calls for below average growth in the out years, the growth is capped at the average of the "below average years". Over the past 27 years, there were 9 years in which revenue growth was "below average" (2.4% average) and 18 years in which revenue growth was above average (7.4% average).

The very low negative "growth" experienced in FY09 and FY10 are far enough in the past to not be part of the five year financial status being crafted here. Because of the very modest growth in the NEFAB forecasts, the revenue growth needed to yield a 4.9% five year average is 6% in both FY13-14 and FY14-15. In this case the cap is not applicable.

Alternative methods are also available for purposes of deriving revenue estimates for the following biennium. In addition to the historical average methodology used in the financial status, both the Nebraska Dept of Revenue (NDR) and Legislative Fiscal Office (LFO) have calculated revenue estimates for these two "out years" using the same models and input from Global Insight, the national forecasting service used as input into the tax forecast models. While these forecasts work well for the 1 to 3 year forecasts, when extended further they have a tendency to flatten out and follow the 3 year trend into the 4th and 5th year. In other words, they have difficulty picking up changes in the trend. The historical average methodology has been used since 1991 and the "smoothing" technique used for the most part relies on the trend changes.

Table 3 Comparison of "Out Year" Forecasts

Based on Oct 2010 Revenue Forecasts	Current Status	Average Global Insight	Average All Forecasts	High Est LFO-Fair	Low Est LFO Global
<u>Dollar Forecast (thousands)</u>					
FY2013-14 Prelim	3,840,000	3,762,402	3,871,631	3,967,474	3,746,750
FY2014-15 Prelim	4,075,000	3,953,442	4,106,494	4,222,858	3,907,482
<u>Calculated Growth (adjusted)</u>					
FY2013-14 Prelim	6.1%	4.1%	6.9%	9.3%	3.7%
FY2014-15 Prelim	6.0%	5.1%	6.0%	6.3%	4.4%
Two Year Average	6.1%	4.6%	6.4%	7.8%	4.0%
Five Year Average	4.9%	4.3%	5.0%	5.6%	4.1%
<u>\$ Difference from Status</u>					
FY2013-14 Prelim	0	(77,599)	31,631	127,474	(93,250)
FY2014-15 Prelim	0	(121,559)	31,494	147,858	(167,518)
Cumulative Total	0	(199,157)	63,125	275,332	(260,768)

As shown in Table 3, the preliminary estimates for the two "out years" arrived at using the historical average concept (as used in the Financial Status), are not that far from the model estimates considering the timeframe.

GENERAL FUND TRANSFERS-OUT

This area tabulates funds that are transferred from the General Fund to another fund within the state treasury. These items have the same affect as an appropriation but are not expended as such and thus are shown under the revenue category (see line 10 on the Financial Status).

Table 4 - General Fund Transfers Out

Excludes CRF Transfers	FY2010-11	FY2011-12	FY2012-13	FY2013-14	FY2014-15
Ethanol Credits (EPIC Fund)	(2,500,000)	(2,500,000)	0	0	0
Property Tax Credit Fund	(115,000,000)	(115,000,000)	(115,000,000)	(115,000,000)	(115,000,000)
Water Resources Cash Fund	(2,700,000)	(2,700,000)	(2,700,000)	(2,700,000)	(2,700,000)
Cultural Preservation Endowment Fund	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)
Indian Affairs, state assistance (LB1002-2010)	(25,000)	0	0	0	0
<i>Total-General Fund Transfers-Out</i>	<i>(120,725,000)</i>	<i>(120,700,000)</i>	<i>(118,200,000)</i>	<i>(118,200,000)</i>	<i>(118,200,000)</i>

Ethanol Production Incentive (EPIC) Transfers to the EPIC fund for ethanol credits included those authorized in LB536 (2001) \$1.5 million per year for FY01-02 through FY07-08, LB90 (2005) an additional \$2.5 million per year from FY05-06 through FY2011-12, LB968 (2006) additional \$5 million in both FY05-06 and FY06-07, LB322 (2007) an additional \$15.5 million in FY07-08. In the 2009 Session, in addition to the \$2.5 million transfers called for under LB90-2005 the Legislature approved additional General Fund transfers to the Ethanol Production Incentive Cash Fund (EPIC) amounting to \$8,250,000 in FY2009-10 and \$3,000,000 in FY2010-11. The \$2.5 million transfer in FY2011-12 is the last transfer called for under current law.

Property Tax Credit Cash Fund Under this program, transfers are made to the Property Tax Credit Cash Fund and based on the amount transferred, monies are allocated to counties by the ratio of the real property valuation in the county to the real property valuation in the state. Counties then allocate funds as credit to each tax payer again based on their proportionate value. Although the original LB367 (Section 4, now Section 77-4212) only specified transfer amounts for tax year 2007 (\$105 million, FY07-08) and 2008 (\$115 million, FY08-09), the statute states that "It is the intent of the Legislature to fund the Property Tax Credit Act for tax years after tax year 2008 using available revenue". Based on this language, and the fact that the provisions related to the credits did not expire after the two years, it was assumed that the intent was to continue the credits beyond tax year 2008 if possible. Therefore in the absence of any other specific action, the projected financial status assumes that transfers would continue at the \$115 million level for at least the following biennium.

Nebraska Cultural Preservation Endowment Fund The Cultural Preservation Endowment Fund was originally created in 1998 with a transfer of \$5 million from the General Fund. Investment income on the fund is transferred to the Nebraska Arts and Humanities Cash Fund and expended as state aid, matched dollar-for-dollar by non-state sources and used to stabilize funding for arts and humanities organizations in the state. LB 1165 (2008) provided for an additional \$5 million for the endowment fund through a \$1 million transfer from the Cash Reserve Fund contingent on a dollar-for-dollar match of new money from qualified endowments (see Section 82-332), and intent language that \$2 million shall be transferred from the General Fund to the Nebraska Cultural Preservation Endowment Fund in both FY2009-10 and FY2010-11. The enacted budget spreads that \$4 million over a four year period, \$500,000 in FY10 and FY11 and \$1.5 million in FY12 and FY13. LB1063 (2010) changed the statutory transfers from the General Fund to the Nebraska Cultural Preservation Endowment Fund. Under prior law, statute called for two more transfers to the Fund, \$1.5 million in both FY11-12 and FY12-13. LB1063 reduces those two transfers to \$500,000 but then extends the \$500,000 transfers for three more years, FY13-14, FY14-15, and FY15-16. The net result is an additional \$500,000 over the five year period.

GENERAL FUND TRANSFERS IN

Cash funds are funds which contain earmarked revenue sources and monies in those funds can only be used for the purposes authorized by statute. In many instances (since the 2009 special session) an authorized use of monies in a cash fund is transfers to the General Fund at the discretion of the Legislature. For accounting purposes, these are shown as "Transfers in" and are included as revenues. The transfers shown below for FY2010-11 were enacted in the 2009 and 2010 regular and special sessions and already incorporated into the "Net Receipts" figures of the NEFAB forecasts

At the present time, current law does not provide for any transfers in FY12 and FY13 and as such the revenue forecasts do not include any transfers.

Table 5 General Fund Transfers In

	FY2010-11	FY2011-12	FY2012-13	FY2013-14	FY2014-15
Securities Act Cash Fund	37,250,000	0	0	0	0
Tobacco Products Admin Cash Fund	7,500,000	0	0	0	0
Dept of Insurance Cash Fund	11,500,000	0	0	0	0
Charitable Gaming Oper Fund	366,817	0	0	0	0
Dept of Motor Vehicles Cash Fund	328,407	0	0	0	0
Waste Reduction & Recycling Incentive Fund	1,517,501	0	0	0	0
Workers Comp Cash Fund	1,000,000	0	0	0	0
Game & Parks Recreation Road Fund	1,064,006	0	0	0	0
HHS Professional & Occupational Credentialing	258,672	0	0	0	0
Education Innovation Fund	to University	0	0	0	0
Health and Human Services Cash Fund	2,559,140	0	0	0	0
Property Assessment Division Cash Fund	1,000,000	0	0	0	0
State Patrol Carrier Enforcement Fund	459,035	0	0	0	0
Nebr Outdoor Recreation & Develop (NORDA)	1,064,007	0	0	0	0
Supreme Court Automation Cash Fund	201,502	0	0	0	0
Probation Program Cash Fund	479,572	0	0	0	0
Dept of Natural Resources (7 different funds)	297,205	0	0	0	0
Secretary of State (5 cash funds)	221,415	0	0	0	0
Fire Marshal (3 cash funds)	85,144	0	0	0	0
DEQ Livestock Waste Management Cash Fund	100,000	0	0	0	0
Commission on Public Advocacy Cash Fund	230,000	0	0	0	0
Electrical Board Cash Fund	203,396	0	0	0	0
Engineers and Architects Regulation Fund	39,745	0	0	0	0
Affordable Housing Trust Fund	1,609,000	0	0	0	0
Other 2009 SS lapses (89 funds 46 agencies)	2,823,536	0	0	0	0
<i>Total General Fund Transfers-In</i>	<i>72,158,100</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>

General Fund Appropriations

Table 6 contains General Fund totals for the projected budget based on the increases noted in Table 7. These increases are a "best guess" estimate of budget changes for the upcoming biennial budget and the following biennium. A narrative description of the assumptions used in arriving at these numbers follows Table 7. These estimates reflect a basic continuation budget, including only those increases related either to entitlement programs, legislative intent, or costs to implement previously enacted legislative actions.

In many cases, the projected increases for the upcoming biennial budget (FY11-12 and FY12-13) reflect agency requests for the items shown while estimated increases for the following biennium (FY13-14 and FY14-15) are based on historical trends.

Note that in most cases, rationales for the FY11-12 and FY12-13 requests are not available as these requests are currently under analysis.

Table 6 Projected General Fund Budget

	Current Year FY2010-11	Upcoming Biennial Budget FY2011-12	FY2012-13	Est for Following Biennium FY2013-14	FY2014-15
<u>Projected Budget</u>					
Agency Operations	1,253,551,864	1,290,173,837	1,360,103,195	1,416,069,715	1,468,834,011
State Aid to Ind/Other	946,710,686	1,045,790,385	1,079,044,623	1,148,298,351	1,221,625,040
State Aid to Local Govt	1,191,036,509	1,377,706,028	1,485,799,144	1,600,266,196	1,707,235,835
Construction	13,802,233	15,513,806	14,009,706	12,982,000	12,982,000
Total (w/o deficits)	3,405,101,292	3,729,184,056	3,938,956,668	4,177,616,262	4,410,676,886
<u>Dollar Change</u>					
Operations	43,023,876	36,621,973	69,929,358	55,966,520	52,764,296
State Aid to Ind/Other	66,453,743	99,079,699	33,254,238	69,253,728	73,326,689
State Aid to Local Govt	(29,303,031)	186,669,519	108,093,116	114,467,052	106,969,639
Construction	(370,000)	1,711,573	(1,504,100)	(1,027,706)	0
Total (w/o deficits)	79,804,588	324,082,764	209,772,612	238,659,594	233,060,624
<u>Percent Change</u>					
Agency Operations	3.6%	2.9%	5.4%	4.1%	3.7%
State Aid to Ind/Other	7.5%	10.5%	3.2%	6.4%	6.4%
State Aid to Local Govt	-2.4%	15.7%	7.8%	7.7%	6.7%
Construction	-2.6%	12.4%	-9.7%	-7.3%	0.0%
Total (w/o deficits)	2.4%	9.5%	5.6%	6.1%	5.6%

Replacement of the ARRA funds is the single largest increase in the following biennium and accounts for 58% of the total increase in the budget. This includes \$140.3 million Education Stabilization funds (TEEOSA school aid), \$89.3 million of Medicaid federal matching rate (FMAP), and \$17 million of General Stabilization funds (used in Dept of Corrections). This was not a choice or a judgment call; current state law for TEEOSA, Medicaid, and Public Assistance determine the overall level of appropriation regardless of the funding source.

Table 7 - Projected Continuation Budget Increase - Dollar Change over Prior Year

Change over Prior Year	Projected Growth		Upcoming Biennial Budget		Est for Following Biennium	
	FY11-12	FY12-13	FY2011-12	FY2012-13	FY2013-14	FY2014-15
<u>Aid to Local Governments</u>						
TEEOSA School Aid (excluding ARRA)	3.5%	9.7%	32,880,110	126,518,978	103,701,961	95,890,777
Aid to ESU's	1.5%	1.5%	217,285	220,554	380,729	390,247
Special Education	0.0%	0.0%	0	0	4,622,346	4,737,905
Aid to County changes (net) LB218-2009	9.2%	13.3%	885,068	1,404,000	0	0
Homestead Exemption	17.4%	13.4%	11,314,000	10,196,000	2,595,300	2,673,159
Community Colleges	1.3%	3.0%	1,085,880	2,633,694	3,166,716	3,277,551
<u>Aid to Individuals / Other</u>						
Medicaid (excluding ARRA)	2.9%	3.9%	18,079,180	24,593,359	46,603,634	50,098,906
Public Assistance (excluding ARRA)	-5.9%	2.5%	(14,500,000)	6,000,000	26,279,452	16,196,219
Childrens Health Insurance (CHIP)	8.5%	6.8%	985,488	860,879	1,386,060	1,490,015
Developmental Disability aid	1.3%	2.0%	1,200,000	1,800,000	3,742,937	3,892,655
Behavioral Health aid	0.0%	0.0%	0	0	2,241,644	2,308,894
<u>State Agency Operations</u>						
Employee Salaries	0.0%	2.0%	0	21,133,038	25,277,660	25,909,601
Employee Health Insurance	10.0%	10.0%	13,881,641	15,235,217	17,991,066	19,790,172
Inflation increases, HHS 24/7 facilities	est amt	est amt	403,997	417,161	5,724,185	5,838,669
Inmate per diem costs	est amt	est amt	1,795,410	1,110,641	1,190,149	1,225,854
Fund shifts one time use of funds (HHS)	est amt	est amt	(3,600,000)	0	6,400,000	0
Takeover county assessor	est amt	est amt	(616,540)	(616,540)	(616,540)	0
BSDC items (HHS)	est amt	est amt	(24,477,558)	0		
Depreciation assessments	est amt	est amt	6,050,668	837,770		
Retirement (defined benefit plans)	est amt	est amt	26,184,355	31,812,071		
<u>Capital Construction</u>						
	Reaff	Reaffff	1,711,573	207,473	(1,027,706)	0
<u>Replace Use of One-Time ARRA</u>						
Education Stabilization (TEEOSA)	0.0%	5.0%	140,287,176	0	0	0
General Stabilization (Corrections)	9.1%	11.5%	17,000,000	0	0	0
Enhanced & Unemployment FMAP (Medicaid)	2.5%	2.5%	89,282,483	0	0	0
ARRA Child Care, FFP (Public Assistance)	-5.1%	5.3%	4,032,548	0	0	0
<u>All Other (net)</u>						
<u>Total General Fund-Annual Increase</u>			324,082,764	209,772,612	250,018,064	234,089,848
Biennial Basis			324,082,764	533,855,376	250,018,064	484,107,912

AID TO LOCAL GOVERNMENTS

Special Education

The agency request included a zero increase for both FY11-12 and FY12-13. FY14 and FY15 included a 2.5% per year increase which is the basic allowable growth rate for those two school years.

State Aid to Schools (TEEOSA)

The estimates reflect a growth in total school aid of 3.6% in FY11-12 and 9.6% in FY12-13. The General Fund financed portion of aid is projected to increase by 21.7% in FY11-12 and 9.7% in FY12-13. The large growth in FY11-12 is attributed to the expiration of the ARRA education stabilization funds.

The FY11-12 TEEOSA growth of 3.6% reflects an estimated spending growth of 5.7% in school year FY10 based on budget to budget growth but only a 4.3% growth in property valuation growth. Normally this differential would cause a large increase in aid. However in FY12 this was offset by a lower cost growth factor (3.25 vs 3.75 in prior year) and a substantial reduction in the system averaging adjustment (\$42 million vs \$81.8 in the prior year).

For FY12-13, the 9.6% growth is largely attributed to the cost growth factor going from 3.25 to 4.5 and a differential between a 3% projected growth in spending (3.4% in GFOE) based on an initial budget to budget growth in school year FY11, and growth in property valuations projected at 2.5%).

FY14 and FY15 are based on the same methodology utilized for the November 15 estimates required under current law for the proposed biennial budget but with Fiscal Office assumptions and should be considered Fiscal Office estimates. The higher growth in both years results somewhat from a .5% annual differential between property valuation (5%) and spending growth (5.5%) but also to the cost growth factor again rising from 4.5 to 5.5 and then 6.0.

Aid to ESU's

The amount of aid to ESU's is based on funding of a certain level of core services and technology infrastructure. Growth in aid is set at the same rate as the basic allowable growth rate under the school spending limitation (1.5% for FY12 and FY13)

Homestead Exemption

Based on the agency request, this program is projected to increase by \$11.3 million (17.4%) in FY11-12 and an additional \$10.2 million (13.4%) in FY12-13. The FY12 increase is an extension of the \$9.3 million FY11 deficit request. The large increases relate to higher number of people eligible due to age (pool of over 65 is rising) and income levels under the current economic conditions.

Aid to Counties Program (LB218-2009)

Prior to FY2011-12 there were three aid programs from which counties receive assistance, general aid to counties program in the State Treasurer's budget, the County Property Tax Relief program budgeted under the Dept of Revenue and the county jail reimbursement program under the Dept of Correctional Services. LB218 passed in the 2009 Session,

eliminated these three programs starting July 1, 2011, and replaces them with a new aid program based solely on the share of statewide taxable value found in each county. The level of funding for the new county aid program is derived by multiplying a percentage which ranges from 0.0075% to 0.0125% times the total real and personal property valuation of all counties. Each county will receive \$30,000, while the remaining funding will be distributed based on each county's percentage of the total valuation of all counties. The increase shown here is based on the difference between the existing aid amounts and an estimated amount per LB218 per the agency request.

Aid to Community Colleges

The FY12 and FY13 amounts included would fund the equivalent of the same salary and health insurance increases provided the University and State Colleges and amounts to increasing aid the equivalent to 2.1% per year.

AID TO INDIVIDUALS/OTHER

Medicaid

For the upcoming biennium, the projected budget is based on the agency request excluding statutory and/or major policy change items that were included within that request. This would include proposed program cuts (\$5.5 million) and a 5% provider rate cut (\$26.9 million). Also not included is \$5 million each year for drug rebates related to the Health Care Reform which have been determined to not be needed. After excluding the items noted above, the remaining items funded include replacement of the expired ARRA enhanced and unemployment FMAP, a decline in the basic federal match rate, and eligibility and utilization increases. Other than the ARRA FMAP amounts, we do not have a breakdown of the individual components of this request. Because the request included a proposed rate cut, it's assumed that the request excluding that item results in provider rates that are held flat for both years.

Overall increase in General Funds is 21.9% in FY11-12. Excluding the impact of the ARRA FMAP, the projected budget includes a two year average growth of 3.4% per year excluding the impact of the ARRA. For the following biennium, a 7.5% per year increase is used

Public Assistance

For the upcoming biennium, the projected budget is based on the agency request (excluding one cut issue) and results in a reduction over the two years averaging -1.7% per year. Although no breakdown of the various programs has been provided at this time, it's assumed the request includes no eligibility, utilization, or rate increases or reductions. The major issue separately identified and the cause of the overall reduction in the amount of state funds needed relates to the use of Emergency TANF funds to replace a portion of the General Funds used in the Aid to Dependant Children (ADC) and Child Welfare programs.

Children's Health Insurance (CHIP)

For the upcoming biennium, the projected budget is based on the agency request, excluding the 5% provider rate cut, and reflects an 8.5% increase in General Funds for FY12 and subsequent increase of 6.8% in FY13. In this program, the growth in General Funds is higher than the growth in the overall program total as the General Fund also must cover

increased costs related to the amount financed from the Health Care Cash Fund which is fixed at \$5 million.

Developmental Disability Aid A 1.3% per year increase is included based on the agency FY12/FY13 request. This includes no additional funds for rate equity. The increase of \$1.2 million in FY12 and an additional \$1.8 million is only for clients transitioning from K-12 programs.

Behavioral Health Aid

This area includes substance abuse and mental health aid. The projected status includes no change in funding. The agency request only included a 5% cut in provider rates. As noted previously, statutory or major policy change items have not been incorporated into these projections.

STATE AGENCY OPERATIONS

Employee Salary Increases

This projected budget includes funding based on the NAPE Master Contract approved in October which calls for a 0% increase in FY11-12 and 2% in FY12-13. For purposes here this was applied to bargaining and non-bargaining employees. This was also applied to the University and State Colleges where salary agreements are not finalized. A 2.5% per year increase is included for the FY14/FY15 biennium which approximates inflation.

Employee Health Insurance

At the present time there is no information available as to the cost increases projected for the FY2011-12. Therefore, this projected status includes a 10% per year increase based on historical trends.

Operations Inflation

For FY12/FY13 biennium the only operating increases included are inflationary costs included at the DHHS 24 hour/7 days per week institutions. This would include food (1%), drugs (4%), medical supplies (3%), and medical services (3%). For the FY14/FY15 biennium, the projected status includes an allocation for operating cost increases equal to 2% of non-personnel operating costs.

Inmate Per Diem Costs

While some costs at the Dept of Correctional Services such as staffing are "fixed" within a range of inmate population, some costs change directly with each inmate. This includes items such as food, clothing, and medical care. The amount included is based on the agency request.

BSDC recertification (HHS)

This projection assumes a re-certification of BSDC and restoration of federal funds for the institution allowing for deletion of the \$25 million supplemental funding in FY11.

Replace ARRA funds, Corrections

The budget for the Dept of Correctional Services uses ARRA general stabilization funds of \$35 million in FY10 and \$17 million in FY11. The FY12 projected budget restores general funds to replace the use of the \$17 million.

Retirement (defined benefit plans)

Shortfalls in defined benefit and cash balance retirement plans were projected to increase in both FY12, and FY13. At this time the increases included here are based on the agency request with annual increases of \$26.2 million in FY12 and an additional \$31.8 million in FY13 based on existing law. Actual levels of funding required will be determined later by actuarial analysis.

Depreciation Assessments

Legislation enacted in 1998 (LB1100) provided, with certain exclusions, that in the year following completion of a state agency capital construction project, the Department of Administrative Services (DAS) was to annually thereafter assess depreciation charges to the relevant state agency on the basis of 2% of the total project cost. LB410, enacted in 2003, suspended these charges for FY2003-04. LB1092, enacted in 2004, suspended the charges for 2004-05 and provided for reinstatement of the charges at a 1% rate starting in 2005-06. LB318 enacted in 2009 suspended assessment of these depreciation charges for 2009-10 and 2010-11 and resumes the charges at the 1% rate for 2011-12 and future years. This projected budget includes the agency requests for resuming these charges at the 1% rate per current statute.

CAPITAL CONSTRUCTION

General Fund dollars included in the projected budget for capital construction reflect reaffirmations only based on the FY10/FY11 biennial budget. These are dollar amounts needed to complete funding of previously approved projects. Nothing is included for new projects in FY12 or FY13.